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Message Text

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PAGE 01 SAN JO 03437 141858Z

67
ACTION ARA-10

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-07 FRB-03

INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03 SP-02

CIEP-01 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-04

CEA-01 PA-01 PRS-01 /080 W
---------- 011654
R 141635Z JUL 76 ZFG
FM AMEMBASSY SAN JOSE
TO SECSTATE WASHDC 44
INFO AMEMBASSY GUATEMALA
AMEMBASSY MANAGUA
AMEMBASSY PANAMA
AMEMBASSY SAN SALVADOR
AMEMBASSY TEGUCIGALPA

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GUATEMALA FOR ROCAP

DEPARTMENT PASS EXIMBANK

E.O. 11652: N/A
TAGS: ECON, EFIN, CS
SUBJECT: IMF REPRESENTATIVE'S IMPRESSIONS OF THE STATE OF THE ECONOMY

1. IN A CONVERSATION WITH EMBOFF, THE IMF REPRESENTATIVE IN COSTA RICA, MIGUEL BUONANGELINO, SAID THAT ECONOMIC ACTIVITY APPEARED TO BE PICKING UP. HE STATED THAT THE SIGNS OF RECOVERY WERE EVIDENT IN EVERY SECTOR OF THE ECONOMY, INCLUDING CONSTRUCTION AND MANUFACTURING.

2. IN HIS OPINION, THE RATE OF INFLATION IS UNDER CONTROL AND WILL PROBABLY REMAIN UNDER 10 PERCENT IN 1976. HE CONSIDERS THE GOVERNMENT'S TIGHT CREDIT POLICY TO BE A
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PAGE 02 SAN JO 03437 141858Z

MAJOR CONTRIBUTOR TO THE SLOWDOWN OF INFLATION.

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3. ALTHOUGH HE DID NOT GIVE ANY FIGURES, HE EXPRESSED SATISFACTION WITH THE PROSPECTS FOR THE BALANCE OF PAYMENTS AT THE END OF 1976.(HE SAID THAT EXPORT EARNINGS WERE UP SHARPLY DUE PRINCIPALLY TO COFFEE EXPORTS, WHILE IMPORTS WERE BARELY ABOVE LAST YEAR'S LEVEL. HE ATTRIBUTED THE RESTRAINT ON IMPORTS TO THE SELECTIVE CONSUMER TAXES IMPOSED IN JANUARY OF 1976, TO THE DECREASE IN WORLD-WIDE INFLATION, AND TO THE CONTINUED EXISTENCE OF INVENTORIES BUILT UP IN 1974. HE DOES NOT BELIEVE THAT THE IMPORT SURCHARGES, ESTABLISHED IN JANUARY OF THIS YEAR, HAVE HAD MUCH OF AN EFFECT ON THE VOLUME OF IMPORTS BECAUSE THEY AFFECT ONLY A SMALL PERCENTAGE OF IMPORTS. THUS, HE IS NOT AT ALL SURPRISED THAT THE GOVERNMENT IS TALKING ABOUT REMOVING OR DECREASING THE SURCHARGES AT THE END OF THE YEAR.

4. HE NOTED THAT AT THE END OF MAY RESERVES WERE UP TO $70 MILLION (FROM $58 MILLION AT THE END OF 1975), AND ADDED THAT RESERVES COULD REACH $100 MILLION BY THE END OF THE YEAR AS THE GOVERNMENT HAS PREDICTED. IN HIS VIEW, THE STRENGTHENED RESERVE POSITION IS THE BEST INDICATOR OF OVERALL ECONOMIC IMPROVEMENT IN COSTA RICA IN 1976.

5. COMMENT: EMBASSY WOULD CONCUR THAT LOCAL MANUFAC-TURING ACTIVITY HAS SHOWN SOME RESURGENCE. FOR EXAMPLE, THE LOCAL FIRESTONE PLANT IS REPORTED TO BE UNABLE TO MEET CURRENT DEMAND AND PLANS TO EXPAND PRODUCTION CAPACITY BY ABOUT 10 PERCENT. HOWEVER, WE ARE DOUBTFUL THAT THE LOCAL CONSTRUCTION INDUSTRY IS REBOUNDING. THERE ARE REPORTS OF WIDESPREAD LAYOFFS OF ENGINEERING AND ARCHITECTURAL PERSONNEL. ACCORDING TO A LOCAL REAL ESTATE BROKER, THESE LAYOFFS ARE DUE TO THE LACK OF COMMITMENTS FOR NEW CONSTRUCTION PROJECTS IN THE COMMERCIAL/INDUSTRIAL AREA. IN HIS VIEW THE INDUSTRY IS COASTING ON THE INERTIA OF PROJECTS WHICH WERE INITIATED TWO OR MORE YEARS AGO. TO SOME EXTENT, RESIDENTIAL (BOTH PRIVATE AND PUBLIC) AS WELL AS
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GOVERNMENT CONSTRUCTION SUCH AS HOSPITALS MAY TAKE UP SOME OF THE SLACK DEVELOPING IN THE COMMERCIAL/INDUSTRIAL CONSTRUCTION SECTOR.
TODMAN

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC CONDITIONS, ECONOMIC ESTIMATES
Control Number: n/a
Copy: SINGLE
Draft Date: 14 JUL 1976
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: powellba
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976SANJO03437
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D760272-0343
From: SAN JOSE
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t19760759/aaaabzvt.tel
Line Count: 111
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION ARA
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: powellba
Review Comment: n/a
Review Content Flags:
Review Date: 15 JUL 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <15 JUL 2004 by coburnhl>; APPROVED <26 OCT 2004 by powellba>
Review Markings:

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US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: IMF REPRESENTATIVE'S IMPRESSIONS OF THE STATE OF THE ECONOMY
TAGS: ECON, EFIN, CS, IMF
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006